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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Allocation of Costs
Associated with Local
Exchange Provision of Video
Programming Services
In the Matter of

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CC Docket No. 96-112

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Comments of General Communication, Inc.

General Communication, Inc. (GCI) hereby submits comments in response to the Commission's Notice of Proposed Rulemaking (Notice).¹ The Notice invited comment on various policy questions regarding the Commission's rules governing how incumbent local exchange carriers allocate their costs between regulated and nonregulated activities in light of the Telecommunications Act of 1996 (1996 Act).² Specifically, the Commission initiated this rulemaking to reexamine such cost allocation rules in light of the "overarching goal that the Commission 'provide for a competitive, de-regulatory national policy framework'".³ GCI supports the Commission's intent to amend the cost allocation rules in a fair and administratively simple manner to promote competition, discourage cross-subsidization while promoting the parallel goal of

¹Allocation of Costs Associated with Local Exchange Provision of Video Programming Services, CC Docket 96-112, FCC 96-214, released May 10, 1996.

²Telecommunications Act of 1996, Pub. L. No. 104-104. 101 Stat. 56 (1996).

³Notice, para. 1.

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universal service.

Introduction

The Commission has elected to open this rulemaking docket in response to the specific pressures created by the 1996 Act's replacement of the former statutory prohibition against incumbent local exchange carrier provision of video programming directly to subscribers in their telephone service areas, while also addressing the pressures that attend other current competitive offerings by those companies. The issue of allocating "spare facilities", such that today's captive ratepayers of the incumbent local exchange carriers do not have to pay for network improvements made in anticipation of future competitive offerings, is also timely. The Commission's basic goals are as follows:

- (1) To give effect to the provisions of the 1996 Act, and the underlying Congressional intent, that facilitate the development of competitive service offerings.
- (2) To give effect to provisions of the 1996 Act relating in particular to local exchange carrier entry into video distribution and programming services markets, and
- (3) To ensure that ratepayers pay telephone rates that are just and reasonable, as mandated by Section 201(b) of the Communications Act of 1934, as amended, and that are just, reasonable, and affordable, as mandated by Section 254(b)(1) of the 1996 Act.

In seeking to meet these goals, the Commission also recognizes the mandate of Section 254(k) of the 1996 Act that the incumbent local exchange carriers may "not use services that are not competitive to subsidize services that are subject to competition." GCI agrees with all of these goals, and the recognition of the mandate, outlined by the Commission.

GCI also agrees with the methods outlined by the Commission to meet these goals. These are:

- (1) To intentionally allocate a significant part of common costs to nonregulated services,
- (2) To establish a system of cost allocation principles that inhibits carriers from imposing on ratepayers the costs and risks of competitive, nonregulated ventures, including video service ventures, and
- (3) To have such a system balance: administrative simplicity; adaptability to evolving technologies; and uniform application among incumbent local exchange carriers.

These methods must be adopted in a manner that fully satisfies the goals and mandate outlined above. They must be achieved for all of America, not just urban America, or those areas of America served by the largest local exchange carriers⁴. As recognized by the Commission, to the extent that the larger local exchange carriers, those subject to both CAM requirements and Tier-1 reporting, are predominantly regulated under a price cap regime while the smaller carriers are regulated on a rate base/rate of return basis, the application of the Commission's amendments may actually be more meaningful as to such smaller carriers.⁵

GCI concurs that the certainty and consistent treatment provided by the use of prescribed specific cost pools and allocation factors for non-regulated costs is more than a

⁴All local exchange carriers are required to develop and implement a Cost Allocation Manual. However, only "Tier-1" local exchange carriers must file the manual with the Commission. All incumbent local exchange carriers should be required to file their manuals with the Commission. See, 47 CFR 64.901-904.

⁵See Notice, footnote 40, page 10.

reasonable basis for their adoption. In order to allow for the rapid implementation of competition in all markets, general guidelines would greatly ease compliance by the local exchange carriers, scrutiny by regulators and rational business opportunity assessment by potential competitors.

I. Cost Allocations Based On Fixed Factors

GCI supports the use of a fixed factor for allocating loop plant between regulated and non-regulated activities.⁶ The fixed factor would be administratively simple, for both the local exchange carriers and the regulators, would encourage competitive use of the loop, by both the LEC and competitors, and could also aid in monitoring and ensuring the long term viability of federal universal service support. While GCI does not have the resources to independently develop a specific factor for the purposes of these comments, it appears that the 50% allocation proposed in the Notice is a reasonable initial allocation factor to accomplish the stated purposes.

II. Establishment of a Cost Allocation Ceiling

In concert with the use of a fixed allocation factor, the imposition of a cost ceiling on total loop costs allocated to regulated activities would advance the Commission's goals. This would ensure that dramatic capacity additions, in most cases resulting in a large percentage of "spare" facilities, would be based upon competitive considerations and not merely made based upon

⁶This should also apply to Interoffice Transmission Facilities and other associated expenses.

revenue from current "captive" ratepayers before the full benefits of competition are achieved. A local exchange carrier would truly have to identify economies of scope and utilize the continuing declining costs of technology in their planning. The use of such a ceiling would also serve to aid the Commission in monitoring and ensuring that the overall growth of the cost of universal service is rational and contained.

III. Allocation of Spare Facilities

GCI has consistently advocated the position that today's captive ratepayers should not have to pay for network improvements that monopoly providers make in anticipation of future competition in their core markets.⁷ The existence of vast amounts of "spare" (in some cases "excess") capacity, financed by captive ratepayers, is not merely a problem associated with the larger local exchange carriers. The Anchorage Telephone Utility, not yet subject to the ARMIS reporting and only recently subject to the Cost Allocation Manual filing requirement, was recently found by the Alaska Public Utilities Commission to have over 13 million dollars worth of investment in excess outside plant capacity, amounting to 10.5% of its outside plant.⁸ Because of the inconsistent filing structures, this "excess" amount is still reflected in interstate access rates.

⁷Prefiled Testimony of Dana L. Tindall, APUC Docket U-93-84, May 16, 1994.

⁸In the Matter of the Investigation into the Reasonableness of the Line-Card, Wired-Capacity and Cable-Fill Investments by the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY, Order U-93-84(13), November 1, 1994.

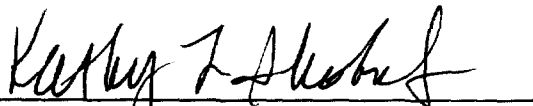
Thus, small companies, currently impossible to monitor because of the indirect National Exchange Carrier Association process and lack of documentation, should also be subject to scrutiny. Monitoring of the amount and allocation of the costs of these facilities would be greatly enhanced if the incumbent local exchange carriers were required to calculate the amount of, and utilize separate cost pools for the spare facilities. Threshold levels for additional scrutiny could be set. In addition to ensuring that the commission's competitive goals are met, this additional scrutiny would also serve to aid the Commission in targeting its universal service support and goals.

Conclusion

GCI supports the Commission's intent to amend the cost allocation rules in a fair and administratively simple manner to promote competition, discourage cross-subsidization while promoting the parallel goal of universal service. GCI supports the use of a fixed factor for allocating loop plant between regulated and non-regulated activities, the imposition of a cost ceiling on total loop costs allocated to regulated activities, and the specific allocation of "spare" facilities.

Respectfully submitted,

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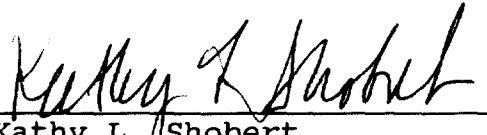
STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed this 31st day of May, 1996.


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CERTIFICATE OF SERVICE

I, Kathy L. Shobert, do hereby certify that on this 31st day of May, 1996 a copy of the foregoing was sent by first class mail, postage prepaid, to the parties listed below.


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